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UNCLAS WARSAW 01161

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ACTION: ECON
INFO: MGT ORA FCS DCM POL AMB PAS ADM

DISSEMINATION: ECOX
CHARGE: PROG

APPROVED: DCM:KHILLAS
DRAFTED: ECON:MKATULA
CLEARED: ECON: LGRIESMER FCS: DMCNEILL

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TO RUEHC/SECSTATE WASHDC 1019
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE
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UNCLAS SECTION 01 OF 04 WARSAW 001161

SIPDIS

SENSITIVE

DEPT FOR EUR/NCE DKOSTELANCIK AND MSESSUMS
DEPT FOR EB/IFD/OMA AND OES/ENV

E.O. 12958: N/A
TAGS: [EAID](#) [SENV](#) [KSCA](#) [PL](#)
SUBJECT: POLAND'S ECOFUND: CRISIS OR MISUNDERSTANDING?

REF: A. WARSAW 450

[1](#)B. WARSAW 1898 05

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[1](#)1. (SBU) Action request for State, EB/IFD/OMA and OES/ENV, paragraph 10.

[1](#)2. (SBU) Summary. Internal disputes at Ecofund discussed in Ref A have grown worse, threatening to disrupt the operations of the Fund. At the heart of the matter is the role that the Polish Treasury Ministry is playing at Ecofund, and donor state dissatisfaction over losing blocking control over the Fund's decisions. Donor state Switzerland is now considering withdrawing from the Fund, although it is uncertain whether it will follow through. Assuming continued full donor state participation, the Fund would expect to disburse roughly \$170 million on projects before its sunset date in 2009. Of course, this would be less if some donor states withdraw. As a group, the four remaining European donor states provide about 50 percent of the Ecofund budget.

Veto Power Revoked

[1](#)3. (U) As described in Refs A and B, Ecofund was set up with contributions from six original donor states: the US, Sweden, France, Italy, Norway and Switzerland. (Sweden withdrew from the Fund in 2004 due to Poland's EU entry, on

the grounds that it does not provide bilateral assistance to EU members.) The U.S. provided its original funding via Poland's July 3, 1991 Paris Club debt rescheduling, in which 10 percent of the "principal" was defined as "canceled principal" to "be used by Poland to finance an environmental fund ...". In contrast, we understand that the European donors provide support on an annual basis.

¶4. (SBU) Ecofund's Supervisory Council can consist of 7 - 15 seats according to its statutes, and now has 15. It essentially controls the Fund's activities by approving projects and personnel moves. Votes are decided by a majority of two-thirds. Originally, each of the six original donor states had one representative on the council, with the other nine appointed by the Government of Poland. The 2004 Swedish withdrawal left the fund with 14 council members. Because the Polish Belka Government did not did not appoint a Council member to replace the Swedes, the donor states continued to be able to block decisions by voting as a group.

¶5. (SBU) This situation changed with the fall 2005 election of a new Polish Government. The new Secretary of State in the Ministry of the Treasury responsible for the Ecofund, Pawel Szalamacha, has sought to make changes in the personnel and operations of Ecofund (Ref A). The Ministry of Treasury moved quickly to establish control of the Supervisory Council by appointing a 15th member that allows a GOP voting bloc to defeat any threat of donor state veto. Some donor state representatives, notably the French and Swiss, have reacted negatively to the change in the Council's decisional balance, noting that the donor states essentially no longer have control over how Ecofund spends their financial contributions. The European donor states believe that the spirit of cooperation that characterized Ecofund has been damaged by Szalamacha. We have a less pessimistic perspective. Misunderstandings have compounded the difficult changes Szalamacha has pushed through. But he has told us that he viewed Ecofund as overstaffed and overpaid, certainly an arguable proposition. Now that he has streamlined Ecofund's management, he has stated his willingness to restore the previous decisional balance by vacating one of the 15 current positions.

Absence of a Financial Plan

¶6. (SBU) Another bone of contention between the GOP and donor states has been the absence of an Ecofund financial plan. The Supervisory Council drafted and approved a plan late last fall, and submitted it to the Ministry of Treasury for approval. In the absence of a financial plan the Supervisory Council was not able to approve projects. (Note: There are currently 11 projects awaiting Council evaluation.) Secretary of State Szalamacha eventually approved the financial plan on May 25, 2006, approximately six months after the draft was received. Furthermore, the donor states were not officially notified of Szalamacha's action until June 6, 2006. The fact that Szalamacha failed to either approve the financial plan or to send it back for so long to the Supervisory Council for cause arguably constituted a breach of Ecofund by-laws.

Politicizing Ecofund

¶7. (SBU) There is a perception among European foreign donors that Ecofund is viewed by the current GOP as a tool of the state and not an independent Foundation. The GOP seems bent on coopting the fund entirely after firing all of the independent members of the Supervisory Council (Ref A) and recently removing three of five members of Ecofund's Management Board, ostensibly for mismanagement. Whereas in March Szalamacha demanded the entire Management Board be fired, he was content at the May 24 meeting to go after only three members, notably sparing, at least for the time being, the Board's embattled President, Maciej Nowicki. The donor

states refused to take part in the meeting, with all five walking out shortly after the meeting's agenda was approved. Donor states objected to the motion to fire the Board, since no explanation to justify the dismissals had been presented, but were unable to block this item with only five votes against the rest of the Supervisory Council's 10 votes.

18. (SBU) In a letter (text below) dated June 6, 2006, Szalamacha suggests that two Board members will not be replaced, and that an open competition will be held to determine the third member. Szalamacha has stated he believes the Board should consist of only three members. Furthermore, Szalamacha describes as "urgent" the need to address the high salaries of Board members. Ecofund by-laws state the Management Board's President should earn 12 times the average Polish annual salary. A survey is conducted each year to determine the President's salary, which is currently approximately USD 10,000 monthly. Szalamacha also mentions the "Supreme Chamber of Control's" (Note: GOP equivalent of the GAO) seemingly negative position on this matter, again suggesting that the GOP sees Ecofund as a state organization, and concluding that Ecofund's salary levels greatly exceed the normal public service scale. Szalamacha will also reportedly seek to cut an unknown number of Ecofund's staff, currently 42 strong. It is important to note that overhead costs, such as staff salary, are paid for by donor states' contributions. Ecofund salaries in 2005 constituted approximately 3.6% of Ecofund's total income.

BEGIN TEXT

Warsaw, 6 June, 2006

The Council of the EkoFundusz Foundation
ul. Bracka 4,
00-502 Warszawa

Dear Sirs,

With reference to the passing, on May 24, 2006, by the Council of the Foundation, of a resolution on dismissal of three out of five Members of the Board of the Foundation, I would like to thank those of you who supported the Founder's motion. I acknowledge the results of the voting.

Additionally, I would like to inform the Members of the Council of the Foundation that, on May 25, 2006, the Minister of the Treasury approved the Financial Plan of the EkoFundusz Foundation for the year 2006.

In connection with the changes made to the composition the Board, I would like to kindly inform you that I uphold the position of the Ministry of the Treasury comprised in the letter of March 13, 2006, concerning the manner in which the candidates for the Board are selected, and put forward a motion for holding a competition in order to select the third Member of the Board of the Foundation. In the opinion of the Founder, selection of a candidate by way of competition will ensure transparency of the procedure and will allow appointment of a person who is politically neutral, solely on the basis of the criteria of competence and suitability for the position. In the Founder's view, the requirements that must be met by candidates should, in particular, take into account experience in the field of project budgeting, familiarity with financial issues (e.g. banking) and environmental problems.

At the same time, I would like to draw your attention to the urgent issue of solving the problem of remuneration received by the Foundation's President and Members of the Board. The position of the Supreme Chamber of Control in that matter placed the Ministry of the Treasury in an uncomfortable situation, as the general public is sensitive to such ethically dubious behaviour.

With kind regards,

Pawel Szalamacha

END TEXT

Ecofund Withdrawal

¶9. (SBU) Against this backdrop, the European donor states are considering their options. The Swiss representative has advised FCS, which represents the U.S. on the Council, that it can cancel its financial commitment and withdraw from the Ecofund and this move is under consideration in Bern. Italy, France and Norway have also investigated this option, but reportedly can not decommit funding at this time, and so are not able to withdraw completely from Ecofund. The European donor states simply can not accept that they no longer have control over Ecofund's activities, despite funding them (along with USG contributions, described in Ref B). This fact, coupled with the Ministry of Treasury's blunt personnel moves at the Fund, has left the European donors irate and looking for options to recapture influence. However, at this point, it is not clear what the European donors will demand from the GOP to settle the quarrel. They will likely demand that the fifteenth Council member be removed, restoring their veto power. Szalamacha could preempt such a proposal through unilateral action. Furthermore, no institutionalized procedures would prohibit the GOP from reappointing a fifteenth Council member in the future.

¶10. (SBU) The next Ecofund Council meeting is scheduled for June 19. Given Treasury's approval of the financial plan, it is hoped that the Council will review and decide upon eleven projects currently up for review. Two projects have significant U.S. content. At a pre-Council meeting strategy session convened on June 12 between representatives of the donor states at the Swiss Embassy, it was agreed that all donors representatives will attend with the exception of the Swiss representative, who is on emergency leave and can not attend. Donor representatives are taking a careful "wait and see" approach, mindful that Ecofund operations have been politicized, but optimistic that passage of the financial plan will allow the Fund to return to its core function of financing needed environmental projects.

¶11. (SBU) For Department's background: It is our understanding that the main U.S.-Polish agreement providing general guidance on this subject is Poland's 1991 Paris Club debt rescheduling agreement, initialed July 3, 1991. As reported in Ref B, neither the U.S.-Polish agreement -- nor any subsequent communications between our governments on GOP Ecofund payment schedules which we could locate in Embassy Warsaw files -- provides guidance on how the environmental foundation should operate or evaluate projects. In contrast, the subsequent agreements between Poland and other donors -- the Polish-Italy, Polish-France, and Polish-Switzerland agreements -- stipulate in one way or another that a certain share of Ecofund projects will go to companies with donor nation involvement. The U.S. agreement also involved a one-time cancellation of debt in 1991. In contrast, we understand that Italy, France, Switzerland, and Norway fund their Ecofund participation annually, presumably out of their current development assistance budgets. While Post does not believe consideration should be given now to withdrawal, it would be useful for Post to have a strong grasp of the legal status of the remaining U.S. funds that have not been disbursed.

Comment and Action Request

¶12. (SBU) Action request. For our own benefit, Post requests Department to clarify the legal status of the theoretically remaining U.S. originated Ecofund funding yet to be disbursed.

¶13. (SBU) Comment. Throughout the dispute at Ecofund, Post has tried to maintain neutrality and sought to act as a bridge between the two quarreling sides. Post ultimately

views Ecofund's continued operations as being more important than the political squabbles currently troubling the Fund. We believe that if the decisional balance can be restored on the Supervisory Council, the European donors will begin to look past their current grievances and will move forward with Ecofund business. Post notes that Department of Commerce A/S Bohigian will meet with Pawel Szalamacha on June 22 and will stress USG interest in the continued operation of Ecofund.

HILLAS